

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00

ARA-06 L-01 SCCT-01 SP-02 PRS-01 TRSE-00 /039 W

----- 079597

P 151221Z APR 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 2843

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 4364

LIMDIS

E.O. 11652: GDS

TAGS: PINS, ASEC, EINV, VE

SUBJ: OWENS-ILLINOIS NATIONALIZATION

REF: STATE 088096

1. SUMMARY. THE ONLY POSSIBILITY, AND IT IS A SLIGHT ONE, THAT THE PRESIDENT CAN BE BROUGHT TO RECONSIDER HIS DECISION TO FORCE THE SALE OF O-I'S MAJOR SUBSIDIARY HERE LIES IN ALLOWING TIME TO PASS AND PASSIONS TO COOL. THE COMPANY DOES HAVE LEVERAGE AND A CONSIDERABLE DEGREE OF SUPPORT FROM THE VENEZUELAN PRIVATE SECTOR. BUT PEREZ IS NOTABLY HEADSTRONG. ALTERNATIVES SHORT OF TOTAL DIVESTITURE, SUCH AS A GRADUAL SELL-DOWN IN AN ANDEAN PACT CONTEXT, MAY HAVE TO BE EXPLORED. WE SHOULD PROVIDE ACTIVE SUPPORT FOR ANY FORMULA THAT OFFERS A WORKABLE SOLUTION SATISFACTORY TO O-I. HOWEVER, WE SHOULD TIME A SPECIFIC DEMARCHE CAREFULLY TO ENSURE THE BEST TACTICAL CONDITIONS. AT THE MOMENT NIETHER THE COMPANY NOR THE USG SHOULD BE IN ANY HURRY TO ADVANCE THE NEGOTIATIONS OR TABLE PROPOSALS UNTIL THE CLIMATE HAS IMPROVED. WHAT HAPPENS TO WILLIAM NEIHOUS WILL HAVE AN IMPORTANT BEARING ON HOW THIS ISSUE COMES OUT. END SUMMARY.

2. I WELCOME THE DEPARTMENT'S CONSTRUCTIVE SUGGESTIONS IN THE REFTEL. CLEARLY, OUR OBJECTIVE SHOULD BE TO FIND A FORMULA THAT WOULD OBVIATE FORCED DIVESTITURE WHILE SATISFYING THE PRESIDENT'S POLITICAL NEEDS. WHAT THAT MIGHT BE IS FAR FROM
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APPARENT AT THE MOMENT. I UNDERSTAND FROM THOMAS HUGHES, THE

COMPANY'S LOCAL COUNSEL, THAT O-I PRESIDENT DOBBS AND VICE PRESIDENT COLEMAN ARE ALREADY CONSIDERING A LETTER OF APOLOGY TO PEREZ. SUCH A GESTURE WOULD DO NO HARM, BUT I DOUBT THAT IT WOULD BE SUFFICIENT AT THIS POINT TO PRODUCE A CHANGE OF HEART. THE PRESIDENT IS NOT ONE TO ADMIT ERROR OR TO SHOW WEAKNESS. AS THE DEPARTMENT WILL HAVE NOTED, HE CAN BE HEADSTRONG AND STUBBORN TO AN EXTREME DEGREE.

3. I HAVE EMPHASIZED IN MY OWN CONVERSATIONS WITH O-I THE IMPORTANCE OF ALLOWING TIME FOR PASSIONS TO COOL. THE COMPANY SHOULD BE IN NO HURRY TO ADVANCE THE NEGOTIATIONS OR TABLE PROPOSALS IN THE ABSENCE OF PRESSURE FROM THE OTHER SIDE. ACCORDING TO HUGHES, ROBERTO SALAS CAPRILES, A PRIVATE BUSINESSMAN AND PRESIDENT OF THE CHAMBER OF INDUSTRIES, HAS NOW BEEN DESIGNATED BY MINISTER OF STATE LAURIA TO CONDUCT THE "COMMERCIAL" NEGOTIATIONS. HUGHES FINDS THIS NEW ARRANGEMENT A DISADVANTAGE IN THAT LAURIA, WHO HAS GREAT PERSONAL INFLUENCE WITH THE PRESIDENT, WILL NOT BE DIRECTLY INVOLVED IN THE TALKS. BUT HE BELIEVES ON THE OTHER HAND THE CHANCES FOR A DRAWN-OUT PROCESS ARE BETTER WITH SALAS ON THE OTHER SIDE OF THE TABLE.

4. IT IS BARELY POSSIBLE THAT IF ENOUGH TIME PASSES, AND IF THE COMPANY MANEUVERS SKILLFULLY, THE PRESIDENT WILL FIND A WAY TO RECONSIDER. O-I HAS A GOOD DEAL OF LEVERAGE. AS I HAVE REPORTED PREVIOUSLY, LOCAL INDUSTRY IS HEAVILY DEPENDENT ON O-I'S PRODUCTION, THE GLASS SHORTAGE HERE IS ACUTE AND THE TECHNOLOGY NECESSARY TO RUN THE PLANTS MAY BE HARD TO COME BY IN WHAT APPEARS TO BE A TIGHTLY CONCENTRATED INDUSTRY. (LAURIA HAS TWICE RAISED WITH COLEMAN THE PROSPECT OF A TECHNOLOGY AGREEMENT AS AN ESSENTIAL ELEMENT IN THE TRANSACTION AND HAS OFFERED TO CONTINUE THE CURRENT ROYALTY ARRANGEMENT (3 PERCENT ON SALES) IN FORCE WITHOUT REGARD TO ANDEAN PACT PROVISIONS. COLEMAN HAS COUNTERED THAT O-I DOES NOT OFFER THE SAME ROYALTY RATES TO OUTSIDE COMPANIES THAT IT GIVES ITS OWN SUBSIDIARIES.) THE COMPANY WILL, OF COURSE, HAVE TO USE ITS LEVERAGE WITH CONSIDERABLE SUBTLETY TO AVOID AROUSING THE PRESIDENT'S PASSIONS ONCE AGAIN.

5. IT SEEMS MORE LIKELY TO ME THAT IT WILL PROVE IMPOSSIBLE TO AVOID SOME CHANGE IN O-I'S STATUS HERE. THERE ARE POSSIBILITIES
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SHORT OF COMPLETE DIVESTITURE THAT MIGHT BE EXPLORED. HUGHES NOTES THAT THE COMPANY HAS IN THE PAST CONSULTED HIM ON BRINGING IN VENEZUELAN INVESTORS AND IS NOT AS A MATTER OF POLICY OPPOSED TO JOINT VENTURES. COLEMAN HAS ALREADY SOUNDED LAURIA OUT WITH NEGATIVE RESULTS ON AN ANDEAN PACT FADE-OUT. IN TIME, HOWEVER, THAT APPROACH MIGHT BE SOLD TO THE PRESIDENT AS MEETING HIS REQUIREMENT THAT THE COMPANY "TRANSFER" ITS SHARES, ALTHOUGH CERTAINLY THE PUBLIC UNDERSTANDING HERE NOW IS THAT THE TRANSFER

IS TO APPLY TO 100 PERCENT OF THE SHARES. ANOTHER ELEMENT MIGHT BE ADDED TO THIS SCHEME. THE GOV IS ENCOURAGING THE CONVERSION OF LOCAL COMPANIES INTO SO-CALLED SAICA'S, OR PUBLICLY-HELD ENTERPRISES. O-I'S SUBSIDIARY IS A HIGHLY PROFITABLE OPERATION AND ITS STOCK COULD PROVE AN ATTRACTIVE OFFERING. IN THESE CIRCUMSTANCES O-I MIGHT BE ABLE TO SELL DOWN TO WELL BELOW 50 PERCENT AND STILL MAINTAIN EFFECTIVE CONTROL.

6. IT SHOULD BE NOTED THAT THE GOV IS APPARENTLY PREPARED TO PERMIT O-I TO HOLD ON TO ITS SEPARATE FLAT-GLASS ENTERPRISE (MAVIPLANCA). THIS HAS LITTLE ATTRACTION FOR THE COMPANY SINCE A LARGE FLOAT-GLASS PROJECT USING THE PILKINGTON COMPANY'S TECHNOLOGY IS IN THE WORKS. COLEMAN TOLD ME O-I WOULD NO LONGER BE INTERESTED IN PURSUING THAT PROJECT, ALTHOUGH PRESUMABLY SOMEONE ELSE COULD BE INTERESTED IN IT. BUT THE COMPANY MIGHT WANT TO CONSIDER PROPOSING A SPIN-OFF OF ITS OTHER BOTTLE PLANT (FAVIANCA) - 70 PERCENT OWNED BY O-I OF VENEZUELA) AND RETENTION OF MAVIPLANCA IN RETURN FOR A TECHNOLOGY AGREEMENT WITH ITS DIVESTED SUBSIDIARY AND AN AGREEMENT TO GO AHEAD WITH THE FLOAT-GLASS PROJECT ON FAVORABLE TERMS. I OBVIOUSLY DO NOT KNOW ENOUGH ABOUT THE ECONOMICS INVOLVED TO REACH ANY BUSINESS JUDGMENTS ON THESE VARIOUS ALTERNATIVES, BUT MY EXPERIENCE HAS BEEN THAT IMAGINATIVE NEGOTIATORS CAN OFTEN COME UP WITH UNEXPECTED AND PROFITABLE NEW ARRANGEMENTS IF THE NEED IS PRESSING ENOUGH.

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00

ARA-06 L-01 SCCT-01 SP-02 PRS-01 TRSE-00 /039 W

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P 151221Z APR 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 2844

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 4364

LIMDIS

7. AS FOR OUR OWN ROLE, I AGREE THAT WE SHOULD LEND THE STRONGEST POSSIBLE ASSISTANCE TO O-I IN SUPPORTING WHATEVER

APPROACH LEADS TO A MUTUALLY SATISFACTORY SOLUTION. THE FOREIGN MINISTER, PRESIDENT OF THE CONGRESS GONZALO BARRIOS AND FEDECAMARAS PRESIDENT DIAZ MARTINEZ HAVE ALL IMPLICITLY INVITED ME TO OFFER SUGGESTIONS. BUT I THINK WE MUST WAIT TO TAKE A HAND UNTIL SOME COOLING TIME HAS PASSED AND WE HAVE A BETTER FIX ON WHAT MIGHT WORK. I CONCUR THAT AN APPROACH TO THE GOV ON A SPECIFIC FORMULA WOULD BEST TAKE PLACE IN THE CONTEXT OF ON-GOING TALKS BETWEEN THE COMPANY AND THE GOV, AND PERHAPS IN THE WAKE OF AN O-I PROPOSAL. WHETHER I SHOULD GO TO THE PRESIDENT DIRECTLY OR USE AN INTERMEDIARY SUCH AS BARRIOS IS A TACTICAL DECISION TO BE MADE AT THE TIME. IT MIGHT BE EASIER FOR THE PRESIDENT TO RELENT IF HE WERE NOT FORCED TO GIVE HIS ANSWER TO ME.

8. WITH RESPECT TO THE SUBSTANCE OF THE DEMARCHE ENVISAGED IN THE REFTEL, WE SHOULD SURELY CONTINUE TO EMPHASIZE THE FUNDAMENTAL AGREEMENT BETWEEN US ON THE TERRORISM ISSUE AND TO EVIDENCE AN APPRECIATION OF THE FACT THAT THE PRESIDENT HAS HIS OWN POLITICAL NEEDS IN THIS SITUATION. BUT I WAS TOLD ON GOOD AUTHORITY THAT HE DOES NOT BUY THE ARGUMENT THAT NATIONALIZATION ONLY SERVES THE PURPOSES OF THE KIDNAPPERS. HE BELIEVES HIS ACTION IS AN EFFECTIVE WARNING THAT THE GOV WILL NOT PERMIT TERRORISTS NOW OR IN THE FUTURE TO PROFIT POLITICALLY OR FINANCIALLY FROM THEIR ACTS AND THUS MORE THAN BALANCES OFF THE SHORT-TERM ADVANTAGES THE OTHER SIDE MIGHT SEE IN O-I'S
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EMBARRASSMENT. I THINK HE IS WRONG BUT FEAR THAT CONTESTING HIM ON THIS POINT WOULD ONLY BE TO BRUISE HIS NOT INCONSIDERABLE EGO BY CASTING DOUBT ON HIS JUDGMENT.

9. ONE FINAL POINT. AS BARRIOS COMMENTED TO ME, WHAT HAPPENS TO NIEHOUS HIMSELF WILL HAVE AN IMPORTANT EFFECT ON HOW THIS ISSUE COMES OUT. AS LONG AS HE IS BEING HELD ALL OUR CALCULATIONS MUST BE REGARDED AS SUBJECT TO DRASTIC REVISION.
SHLAUDEMAN

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, POLICIES, DEMARCHE
Control Number: n/a
Copy: SINGLE
Draft Date: 15 APR 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CARACA04364
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760143-0259
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760459/aaaabxtb.tel
Line Count: 208
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 76 STATE 88096
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by BoyleJA>; APPROVED <01 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OWENS-ILLINOIS NATIONALIZATION
TAGS: PINS, ASEC, EINV, VE, OWENS-ILLINOIS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006